

Department of Social and Health Services

DP Code/Title: M2-TE State Drug Pricing Program

Program Level - 080 Medical Assistance

Budget Period: 2003-05 Version: H2 080 2003-05 2004 Sup-Agency Req

Recommendation Summary Text:

The State Drug Pricing Program (SDPP) proposes additional staff to increase the number of multi-source drug classes that are researched and priced at lower levels through the State Maximum Allowable Cost (SMAC) process.

Also requested are staff to support the drug rebate process and coordinate with pharmacy staff to review and update SMAC pricing, process SMAC price waiver requests, and provide program support. Statewide result number 4.

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
001-1 General Fund - Basic Account-State	(1,192,000)	(3,832,000)	(5,024,000)
001-C General Fund - Basic Account-DSHS Medicaid Federa	(1,363,000)	(3,832,000)	(5,195,000)
Total Cost	(2,555,000)	(7,664,000)	(10,219,000)

Staffing

	<u>FY 1</u>	<u>FY 2</u>	<u>Annual Avg</u>
Agency FTEs	6.2	13.0	9.6

Package Description:

Medical Assistance Administration (MAA) requests that FTEs be added in support of an expanded SMAC pricing process and to enhance the whole of the SMAC pricing system. Savings from SMAC pricing and larger rebates will offset the cost of FTEs.

The State Maximum Allowable Cost (SMAC) program for drug pricing was started in 1972 as a method to help control the cost of the pharmacy program. The SMAC process identifies multi-source drugs (e.g., generic drugs) that have actual acquisition costs below established reimbursement rates to providers and adjusts reimbursement rates to be closer to the actual acquisition costs. MAA also applies for, documents, and collects rebates on drugs that are purchased through the program. The program monitors estimated acquisition costs through review of national estimated acquisition cost data, automated maximum allowed costs, and federally established upper limits on reimbursements. The actual costs paid by providers for drugs is also researched. The extra effort required saves money because MAA is able to establish a lower actual cost in Washington than the automated or estimated actual cost set nationally.

Currently, the program has 4.5 FTEs assigned (2.0 FTEs process rebates and 2.5 FTEs research pricing). The pricing program staff set new SMAC prices, review existing SMAC prices and authorize SMAC pricing waivers. On average, each FTE is able to complete the SMAC review and pricing of seven drug classes or generic code numbers (GCNs) per month. This work is completed in addition to reviewing existing SMAC prices, answering questions from providers and staff, establishing and maintaining provider contacts, performing work related to waiving the SMAC prices when requested and performing analysis on pharmacy costs, expenditures and utilization.

With more FTE resources, SMAC prices can be researched and established for more drugs. There are approximately 2,070 GCNs that could but are currently not SMAC priced. On average, each SMAC pricing action has saved \$62,000 per-month in the first six months of 2003. In addition to initial SMAC pricing of drugs, drugs that have a SMAC price established must be reviewed periodically and requests for waiver of the SMAC price must be processed, which involves fielding the provider request, researching the request's validity, approving or disapproving the waiver request and documenting the waiver approval. Support of the entire process is also required in addition to the resources needed to secure available rebates.

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Narrative Justification and Impact Statement

How contributes to strategic plan:

This program expansion proposal supports the MAA strategic goal of enhancing MAA's ability to be effective purchaser of health services.

Performance Measure Detail

Program: 080

Goal: 15H Enhance Abilities to be an Effective Purchaser of Health Services

Incremental Changes

FY 1

FY 2

No measures submitted for package

Reason for change:

Drugs are the single largest services that MAA pays for and the cost of this service continues to increase. An expanded SDPP will significantly improve the ability of MAA to control the cost of drugs, limiting the increases of drugs on a per capita basis.

Impact on clients and services:

Clients will not see an impact from this change. Pharmacy providers will receive reimbursement for drugs that is closer to the actual acquisition cost of the drugs, rather than reimbursement based on national guidelines that may be outdated.

Impact on other state programs:

None

Relationship to capital budget:

Not applicable

Required changes to existing RCW, WAC, contract, or plan:

Not applicable

Alternatives explored by agency:

MAA continues to look for savings opportunities related to more efficient methods of doing business. SDPP is the result of this process.

Budget impacts in future biennia:

Savings in future biennia will depend on how effectively SDPP limits prices paid relative to the acquisition cost of the pharmacies. These savings will be built into the forecast.

Distinction between one-time and ongoing costs:

Equipment purchases for new FTEs are one-time costs (\$34,000 in State Fiscal Year 2004 and \$66,000 in State Fiscal Year 2005). Estimated savings and the balance of SDPP administrative costs are ongoing.

Effects of non-funding:

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Non-funding of this proposal will avoid the additional FTEs required to implement the proposal and will result in not capturing the estimated savings.

Expenditure Calculations and Assumptions:

This analysis assumes funding for a total of 9.0 FTEs to perform SMAC pricing on new drug categories and 4.0 FTEs to perform support activities for the SMAC pricing program.

1. Each FTE performing SMAC pricing can review and price seven GCNs per month. This will require 32 months to complete.
2. FTEs performing support activities will supervise the process, handle SMAC pricing waiver requests, review existing SMAC pricing, and provide general program support.
3. Each SMAC price action saves \$7,243 per-GCN per-month on average. Calculation of actual savings will be performed to ensure that targets are met.
4. The total estimated costs for 13.0 FTEs is \$1,235,000, with \$106,000 in one-time costs for equipment. It is expected that FTEs will be added incrementally with up to 6.0 FTEs in Fiscal Year 2004 and an additional 7.0 FTEs in Fiscal Year 2005.

Fund 2.0 FTEs to request, document and secure available drug rebates.

See attachment - MAA M2-TE State Drug Pricing Program.xls

<u>Object Detail</u>		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding				
A	Salaries And Wages	150,000	633,000	783,000
B	Employee Benefits	34,000	156,000	190,000
E	Goods And Services	28,000	119,000	147,000
J	Capital Outlays	34,000	66,000	100,000
N	Grants, Benefits & Client Services	(2,804,000)	(8,650,000)	(11,454,000)
T	Intra-Agency Reimbursements	3,000	12,000	15,000
Total Objects		(2,555,000)	(7,664,000)	(10,219,000)

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DSHS Source Code Detail

Overall Funding		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State				
<u>Sources</u>	<u>Title</u>			
0011	General Fund State	(1,192,000)	(3,832,000)	(5,024,000)
<i>Total for Fund 001-1</i>		<u>(1,192,000)</u>	<u>(3,832,000)</u>	<u>(5,024,000)</u>
Fund 001-C, General Fund - Basic Account-DSHS Medicaid Federa				
<u>Sources</u>	<u>Title</u>			
19TA	Title XIX Assistance (FMAP)	(1,488,000)	(4,325,000)	(5,813,000)
19UL	Title XIX Admin (50%)	125,000	493,000	618,000
<i>Total for Fund 001-C</i>		<u>(1,363,000)</u>	<u>(3,832,000)</u>	<u>(5,195,000)</u>
Total Overall Funding		<u>(2,555,000)</u>	<u>(7,664,000)</u>	<u>(10,219,000)</u>